

IFRS 18: What it means for real estate investment companies

A focus on Management-Defined Performance Measures (MPMs)

IFRS 18 Presentation and Disclosure in Financial Statements introduces a major shift in how companies present performance. Replacing IAS 1, it aims to improve consistency and comparability in how financial performance is communicated to investors.

For the real estate sector—where “adjusted” measures, typically based on the EPRA Guidelines, are often used to reflect underlying business performance—the new requirements around Management-Defined Performance Measures (MPMs) will be particularly significant.

What are MPMs?

IFRS 18 defines MPMs as subtotals of income and expenses that:

- ▶ are used in public communications outside the financial statements (for example, in investor presentations, annual reports, or press releases),
- ▶ communicates management’s view of an aspect of the financial performance of the entity as a whole to the user of financial statements, and
- ▶ is not specifically required to be presented or disclosed by IFRS Accounting Standards.

In short, an MPM is a performance measure that management chooses to highlight because it provides insight into how they evaluate the company’s results – but it’s not one of the prescribed subtotals in IFRS (like “operating profit”) or subtotals that IFRS 18 specifically excludes.

What does IFRS 18 require?

Under IFRS 18, companies must, for each MPM, disclose:

- a) a description of the aspect of financial performance that, in management’s view, is communicated by the MPM. This should include explanations of why, in management’s view, the MPM provides useful information about the entity’s financial performance.
- b) how the MPM is calculated.
- c) a reconciliation between the MPM and the most directly comparable IFRS-defined sub-total.
- d) the income tax effect and the effect on any non-controlling interests for each item disclosed in the reconciliation to the nearest IFRS sub-total.

These disclosures are required to be included in a single note to the financial statements and consequently will fall within the scope of audit.

IFRS 18 sets out additional disclosure requirements when an entity changes how an MPM is calculated

ESMA-aligned reporting

Companies that already disclose information about adjusted performance measures in line with ESMA guidelines will generally comply with many of the IFRS 18 requirements. In most cases, these disclosures appear in the narrative report or an unaudited appendix rather than in a note to the primary financial statements. IFRS 18 formalises the presentation, explanation, and reconciliation of any MPMs, making the link to the IFRS financial statements explicit for investors. Care will need to be taken to ensure that the single MPM note to the financial statements is clear and easily understood.

MPMs and the Real Estate Sector

Real estate companies commonly use alternative performance measures (APMs) to communicate business performance, particularly to highlight underlying earnings or recurring income unaffected by valuation movements or one-off transactions.

Common examples include:

- ▶ EPRA Earnings
- ▶ Adjusted earnings
- ▶ EPRA Net Tangible Assets (NTA)
- ▶ Weighted Average Unexpired Lease Term (WAULT)

Some of these measures will qualify as MPMs under IFRS 18, while others will not.



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Performance measures		
Non-financial performance measures	Financial performance measures	
<ul style="list-style-type: none"> • WAULT • Occupancy rate • Like-for-like rental growth • EPC ratings 	Sub-total of income and expenses	
	IFRS defined	MPMs
	<ul style="list-style-type: none"> • Operating profit • Profit or loss before income tax 	<ul style="list-style-type: none"> • EPRA Earnings • Adjusted Earnings
		Other financial measures <ul style="list-style-type: none"> • EPRA NAV • EPRA Net Initial Yield • Total Accounting Return

What is not an MPM?

Real estate companies commonly report a range of financial ratios – such as EPRA Net Initial Yield (NIY), EPRA Earnings per Share, Loan-to-Value (LTV), or Total Accounting Return – to communicate capital efficiency, balance sheet strength and investment performance. A ratio is not, in itself, an MPM because it is not a subtotal of income and expenses. Ratios express a relationship between two figures rather than a performance subtotal. However, the numerator or denominator of a ratio may be an MPM if it represents a management-defined subtotal of income and expenses that meets the IFRS 18 definition.

Example

EPRA Cost Ratio - which compares administrative and operating costs to gross rental income - is a financial ratio and therefore is not an MPM. Nevertheless, both the numerator and denominator used in the calculation could individually qualify as MPMs.

Although the administrative and operating costs used in the EPRA Cost Ratio (the numerator) may at first appear not to be a subtotal of income and expenses, they are defined as all administrative and operating expenses in the IFRS financial statements, including the Group's share of joint venture overheads and operating expenses, net of any service fee income. Because service fee income is deducted, the resulting figure represents a subtotal of income and expenses and therefore could meet the definition of an MPM under IFRS 18 if used to communicate management's view of performance.

The same principle applies to gross rental income (the denominator), where the EPRA guidelines require ground rents to be deducted when calculating the ratio. By adjusting in this way, the denominator also becomes a management-defined subtotal that could qualify as an MPM.

What should companies do now?

To prepare for reporting under IFRS 18, real estate groups should:

- ▶ Map all adjusted measures currently used in investor materials and financial statements against the IFRS 18 definition.
- ▶ Determine which qualify as MPMs and prepare reconciliations to IFRS subtotals.
- ▶ Align definitions and calculations with EPRA guidelines where relevant, ensuring consistency but acknowledging IFRS 18's distinct disclosure requirements.
- ▶ Review governance processes – MPM disclosures will now be subject to audit, so data sources and adjustments should be robust and well-documented.
- ▶ Communicate early with investors about any changes to terminology, structure, or presentation.

IFRS 18 doesn't prohibit the use of adjusted or sector-specific measures such as EPRA Earnings – but it does require greater transparency, discipline, and reconciliation around how those measures are presented.

For real estate groups, this is an opportunity to enhance investor trust by demonstrating that management's view of performance is both clear and reconcilable to IFRS figures.

Find out more about IFRS 18 in our comprehensive guide [IFRS Accounting Standards in Practice - IFRS 18](#).



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Annex - Commonly reported EPRA measures

EPRA Measure	Description	Subtotal of income and expenditure?	Required by IFRS?	Likely MPM?	Reasoning
EPRA Earnings	Underlying recurring earnings from operational activities	✓	✗	✓	Subtotal of income and expenses; normally used by management to monitor performance and inform distribution decisions; widely reported externally.
EPRA Earnings Per Share (EPS)	EPRA earnings / weighted average shares	✗	✗	✗	EPRA EPS is a ratio and therefore not a sub-total of income and expenditure.
	Numerator: EPRA earnings	✓	✗	✓	EPRA earnings will generally be an MPM (see above)
	Denominator: Weighted average shares	✗	✗	✗	Weighted average shares is not a performance measure so is not an MPM.
EPRA Cost Ratio	Administrative & operating costs / gross rental income	✗	✗	✗	EPRA Cost Ratio is a ratio and therefore not a sub-total of income and expenditure.
	Numerator: Administrative & operating costs	✓	✗	✓	Administrative & operating costs is normally a subtotal of income and expenses as it is net of any service fees and management fees.
	Denominator: Gross rental income	?	✗	?	Gross rental income may be a subtotal of income and expenses if the entity has ground rent costs which are deducted from rental income.
EPRA NAV / NTA / NRV / NDV	Adjusted net asset value measures	✗	✗	✗	Reflects financial position rather than performance so not MPMs.
EPRA Net Initial Yield	Net rental income / market value	✗	✗	✗	EPRA NIY is a financial ratio and therefore not a sub-total of income and expenditure.
	Numerator: Net rental income	✗	✗	✗	Net rental income is the annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property costs. It is therefore a snapshot of contractual cash flows rather than a measure of income earned in the period, as such it would not generally qualify as an MPM.
	Denominator: Market value	✗	✗	✗	Market value is a measure of position rather than performance, so not an MPM.
EPRA Vacancy rate	ERV vacant space / ERV total space	✗	✗	✗	Not a subtotal of income and expenses.
EPRA like for like rental growth	Period-on-period change in comparable rental income	✗	✗	✗	Not a subtotal of income and expenses.

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